

## **The B Corporation Certification: An Institutional Theory Approach**

Maretno A. Harjoto  
Professor of Finance  
Pepperdine Graziadio Business School  
Pepperdine University  
Malibu, CA 90263-4100  
Email: [maretno.harjoto@pepperdine.edu](mailto:maretno.harjoto@pepperdine.edu)  
Phone: (310) 506-8542

Indrarini Laksmana  
Associate Professor of Accounting  
College of Business Administration  
Kent State University  
Kent, OH 44242-0001  
E-mail: [ilaksman@kent.edu](mailto:ilaksman@kent.edu)  
Phone: (330) 672-1119

Ya-wen Yang  
Associate Professor of Accounting  
School of Business  
Wake Forest University  
Winston-Salem, NC 27109-7424  
E-mail: [yangyw@wfu.edu](mailto:yangyw@wfu.edu)  
Phone: (336) 758-2934

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# **The B Corporation Certification: An Institutional Theory Approach**

## **Abstract**

Drawing from institutional isomorphism, gender socialization theory, the ethics of care, and social identity theory, we examine the impact of geographic locality, product market competitions, and owners' demographic characteristics on a firm's decision to be a certified B Corporation. Using two sets of data: a hand-collected sample of 743 small businesses receiving a B Corporation certification between 2007 and 2014 and a sample of 902 firms participating in a B Lab survey from 2011 to 2013, we examine factors that influence firms' decision to obtain the B Corporation and their environment, social, and governance (ESG) performance. Firms in states that are Democratic-leaning, have a lower hourly wage rate, or have a greater religious population are more likely to be early adopters and leaders of the B Corporation movement than those in other states. On average, states with a higher unemployment rate and more democratic-leaning voters have more B Corporation certified firms in each year and over the years. Additionally, product market competition is positively associated with firms' likelihood of obtaining B Corporation certification and their ESG scores.

Keywords: B Corporation; institutional isomorphism; locality; product market competition; gender; CSR

JEL Classifications: L31; M14; G30; O35

## **Introduction**

While some started their businesses nearly three decades ago (e.g., Ben & Jerry's and Seventh Generation), companies that emphasize social and environmental performance in addition to profit maximization have not received considerable public attention until recent years. Traditionally, a corporation is viewed as an economic entity with profit as its sole focus, and any social and environmental initiatives that do not increase the financial wealth of shareholder is considered a waste of resources (Friedman, 1970), leaving a growing number of social and environmental issues for government and civil society to address. This view has widened the gap between businesses' main objectives and the societal goals. In the aftermath of the most recent financial crisis, corporations have been widely criticized for being self-interested, and as a result, general public and stakeholders have been putting more emphasis on the social responsibilities of corporations.

The number of B Corporations, as well as other for-profit social enterprises and purpose-driven businesses, has grown in the recent decade. B Corporations are for-profit companies that voluntarily meet heightened social and environmental sustainability standards, and certified by B Lab, a nonprofit organization founded in 2006. B Corporation certification is unique in that it seeks to drive positive and systematic societal changes through repurposing the existing capitalist structures and developing innovative solutions to measure the social and environmental impact of businesses. Given that the B Corporation movement did not start until 2006, important topics, such as what drives firms to become a B Corporation and what affects the social performance of certified B Corporations, have not been fully studied. Our study aims to fill this gap by, first, using the existing research to establish a theoretical foundation that becoming a B Corporation is a CSR action, and next, examining whether the existing theories that explain the factors motivating

companies to engage in CSR can also be applied to explain firms' motivation to become B Corporations.

Although some multinational public companies, such as Unilever and Group Danone, have joined the B Corporation movement in recent years, most of the B Corporations in existence are small and privately held. Our sample firms obtained from B Lab have an average annual revenue of \$13.5 million, providing us a great opportunity to study CSR of small to medium sized enterprises (SMEs).<sup>1</sup> There are differences in the motivations to engage in CSR practices between large companies and SMEs.<sup>2</sup> SMEs are generally managed by owners and/or founders, who often started their businesses with some societal needs in mind. SMEs are also more personal, and thus, personal relationships are more likely to be the key to their success. Additionally, because SMEs have less resources, they are more likely to pursue the substance of CSR rather than the form (i.e., the public relation and communications) of CSR than their large counterparts. Our study adds to the line of research examining what motivates CSR of SMEs by identifying the factors that lead small businesses to become a B corporation.

Extending extant research on B Corporations and drawing from theories in CSR literature, we examine the impact of geographic locality (or, state-level characteristics), product market competition, and business owners' demographics on firms' decision to be a B Corporation. Marquis *et al.* (2007) apply institutional isomorphism theory into CSR literature by arguing that institutional pressures at the community level influence the type and the level of corporate social actions. Drawing from institutional isomorphism, we examine whether characteristics of local community, measured by political leaning, religiosity, wage rate, unemployment rate, and level of education, provide coercive and normative influence on both the speed and the number of firms to become a B Corporation.

Institutional isomorphism also indicates that firms in more competitive markets tend to mimic a new form of business organization that they perceive to be more legitimate or successful (DiMaggio and Powell, 1983). In addition, scholars have suggested that corporate social actions can be strategically chosen to increase a competitive advantage of the firm (Porter and Kramer, 2002; 2006). Thus, we conjecture that companies in highly competitive environment are more likely to obtain B Corporation certification and have better social and environmental performance than those in less competitive environment.

Gender socialization theory posits that men and women possess psychological and cognitive differences in morality and values. The ethics of care (Gilligan, 1982; Held, 2006) suggests that female tends to focus on relationships and care for others as a center of moral action toward the society. Further, social identity theory (Tajfel, 1982; Tajfel and Turner, 1986) posits that, in light of their challenges to obtain social justice, ethnic minorities tend to focus on improving social justice in the society. Drawing from these theories, we posit and test that female owned and minority owned businesses are more likely to obtain B Corporation certification and have better social and environmental performance.

This study examines factors that influence firms' decision to obtain B Corporation certification and their ESG performances. This inquiry is important because, given that the majority of existing B Corporations is small, for-profit organizations with social goals, our findings provide insights to the understanding of CSR for small enterprises and hybrid organizations. While numerous studies have focused on hybrid organizations (Batillana and Dorado, 2010; Doherty *et al.*, 2014; Grieco *et al.*, 2014; Haigh and Hoffman, 2012), fewer studies have sought to examine the motivation of hybrid organizations to go through the B Corporation verification and certification process.

## **Being a B Corporation is a CSR Action**

Following Hiller (2013), we argue that being a B Corporation is a CSR action. Hiller (2013) provides the rationale for Benefit Corporation (BC) from the lens of corporate social responsibility.<sup>3</sup> She argues that the five aspects of the BC statute are to provide public benefit, to have an independent third party that annually reviews the public benefit provided by an enterprise, to have broader goals for boards of directors beyond profit maximizing, to provide more transparency, and to bring legal action for enforcing the public benefit provided by an enterprise. Hiller (2013) notes that these five aspects of BC are consistent with the six factors of CSR framework by Crane, Matten, and Spence (2008), which helps explain how B Corporations can also be viewed through a CSR lens.<sup>4</sup> The six factors include whether (1) the actions are voluntary, (2) externalities are addressed, (3) multiple stakeholders are taken into account, (4) social and economic responsibilities are aligned, (5) CSR is incorporated in the value system, and (6) CSR is integrated into the core business operation.

Becoming a B Corporation is a voluntary action. Managing externalities is explicit for B Corporations since their purpose is to bring net positive impact to the society. In addition, B Corporations are required to consider multiple stakeholders and integrate B Lab commitments to stakeholders into company governing documents. They are for-profit enterprises that balance social and economic responsibilities and incorporate CSR into their value systems and operations. Clearly, Crane's framework shows that B Corporations meet the baseline test to be included in the CSR research. More importantly, becoming a B Corporation signals a firm's serious commitments to integrate CSR into its business operations and to provide transparencies by voluntarily meeting stringent criteria to obtain and to maintain a certification from an independent third-party entity (B

Lab) who assesses, monitors, and provides social pressures for a certified firm to balance profitability and social outcomes.

In addition to B Lab, there are other institutions, such as International Organization for Standardization (ISO) and Global Reporting Initiatives (GRI), providing CSR guidelines. Sethi *et al.* (2017) reviews the CSR reporting guidelines provided by ISO (i.e., ISO 26000) and GRI (i.e., G4) and concludes that GRI's reporting guidelines of a corporation's economics, social, and government performance are consistent with, but more robust and rigorous than, the guidelines offered by ISO which have seven core subjects of responsibility, including governance, human rights, labor practices, environment, fair operating practices, consumer issues, and community involvements. However, neither of these two provide specific measures to assess the quality of the CSR reports or provide assurance as to the accuracy of the information reported therein. The B Corp certification process, similar to the CSR-S Monitor suggested by Sethi *et al.* (2017), fills the gap by providing credible, verifiable, and comparable assessments on firms' CSR outcomes based on standards set by B Lab.

Johnston (2011) finds that companies following ISO 26000 are likely to identify more externalities than those that do not, suggesting that the ISO 26000 standard steers companies to learn about the externalities their operations create. The B Corp certification takes a step further. It provides not only a set of assessment criteria to help firms identify negative externalities, but also social pressure and expectations for certified companies to address such externalities. Because the B Corporation is considered a new form of organization structure (Girling, 2012) and becoming a B Corporation is a CSR action, we turn to prior CSR and organizational literature for our hypotheses development.

## **Hypothesis Development**

### *Organizational Isomorphism and B Corporation*

Originated in the human ecology (Hawley, 1950), organizational conceptualization of isomorphism states that an organizational structure is formed through continuous interactions between the organization and its environment and purposeful adaptations of an organization with its environment (Hannan and Freeman, 1977). Marquis *et al.* (2007) suggests that community isomorphism provide explanations for firms to engage in CSR activities. Based on informational interviews with corporate board members and board members for non-profit, they find social and normative pressures at the local community level influences the nature and the level of CSR activities. There are two components of organizational isomorphism: competitive and institutional isomorphism (DiMaggio and Powell, 1983; Fennell, 1980; Meyer, 1979). According to institutional isomorphism, organizations will conform to the rules, standards, and belief systems prevailing in the environment to gain legitimacy. This conformity will occur through three mechanisms: coercive, mimetic, and normative (DiMaggio and Powell, 1983).

Coercive isomorphism is triggered by formal and informal pressures that push organizations to follow legal rules or meet cultural expectations from society (DiMaggio and Powell, 1983). Coercive isomorphic changes can be brought about by pressures from local communities, such as political parties, religious organizations, and activist groups, suggesting that locality characteristics, such as political leaning, religiosity, and wage rate, may influence corporate social actions and performance. Empirical studies have documented a significant association between the state-level political leaning and social actions (Rawhouser *et al.*, 2015; Rubin, 2008). For example, Rubin (2008) finds that firms headquartered in states with more Democratic voters tend to have better social performance than those with more Republican voters.<sup>5</sup>



Studies have also found an association between local religiosity and CSR engagement (Brammer *et al.*, 2007; Chatjuthamard-Kitsabunnart *et al.*, 2014; Wu *et al.*, 2016). For example, Wu *et al.* (2016) document that firms with headquarters in localities with higher level of religiosity engage more in CSR activities. Overall, prior studies suggest that locality characteristics, such as political leaning and religiosity, may cause coercive pressures and influence a firm's decision to become a B Corporation.

Moreover, when government reduces public expenditures due to fiscal deficits, it is increasingly left in the hands of the private sector to create jobs. The hope that private sector will pick up the slack in hiring also creates coercive pressures on firms to act responsibly. As one of the main reasons for businesses to become B Corporations is to address social issues related with work conditions (e.g., poor treatments to employees) and organizational structure of current workplace (e.g., profit-oriented reward system) in large corporations, we expect that locality characteristics, such as wage rate and unemployment rate, may also proxy for the coercive mechanism that influence firms' decision to obtain B Corporation certification.

Unlike coercive isomorphism, where organizations are forced to change by external forces, normative isomorphism is shaped by education and professional networks (DiMaggio and Powell, 1983). Normative isomorphic changes can be brought about by norms developed during education and interactions through inter-organization networks. For example, normative pressures on firms to adopt CSR practices can come from the discussion of CSR and business ethics commonly incorporated in business curriculum, the growing number of professional associations demanding for sustainable practices, etc. Normative isomorphism suggests that the level of education of local community creates normative pressure motivating firms to become B Corporations.

Examining the adoption of GRI, Hess (2008) indicates that the three pillars for the adoption of a new organizational structure that embraces CSR are disclosure, dialog with stakeholders, and moral development of the corporation itself. Similarly, Aguilera *et al.* (2007) argue that instrumental, relational, and moral motives play a significant role in driving a positive social change of corporate actions. Obtaining B Corp certification requires companies to disclose their ESG performance through the B impact assessment questionnaires. It also requires companies to have continuous dialog with their stakeholders and continuously improve their ESG to maintain B Corp certification. More importantly, B Corporation movement represents an institutional isomorphism for moral development of the corporation.

In sum, organizational isomorphism and prior empirical evidence lead us to predict an association between various locality characteristics (e.g., political leaning, religiosity, education level, wage rate, and unemployment rate) and firms' decision to obtain B Corporation certification. Our first hypothesis is stated as follows:

*H1: Locality characteristics are associated with the speed and the number of firms obtaining B Corporation certification*

Mimetic isomorphism is the tendency of an organization to imitate another organization's structure because of the belief that the structure is beneficial. As their main goal broadens to the triple bottom line, firms tend to model other similar firms that they perceive to have a more legitimate or more successful organizational structure (DiMaggio and Powell, 1983). Small businesses face fierce competitions in product markets, and thus, are likely to resort into a new business model that emphasizes both profit and social missions to gain legitimacy and competitive advantages. B Corporation certification offers such a new business model. It also allows certified firms to differentiate themselves from their competitors.<sup>6</sup> Competitive isomorphism also helps explain why firms join the B Corporation movement. Competition among firms usually centers

on securing both inputs and outputs. Companies compete with others to secure raw materials, skilled labors, and capital. They also compete with rivalries to sell their products and to gain consumers' loyalty. Becoming a B Corporation allows a firm to attract suppliers, talented employees, investors, and customers who share the company's values.

Empirical studies generally find a positive association between product market competition and CSR (Fisman *et al.*, 2006; Siegel and Vitaliano, 2007; Fernandez-Krant and Santolo, 2010). These studies argue that socially responsible actions can be strategically chosen to differentiate firms from their competitors and to enhance firms' competitiveness and reputation (Porter and Kramer, 2002; Orlitzky *et al.*, 2011). Porter and Kramer (2006) introduce a framework for companies to identify opportunities to benefit society and themselves by strengthening the competitive context in which they operate. Built on the strategic view of CSR, we predict a positive association between product market competition and the likelihood of companies to become B Corporations. Our second hypothesis is stated as follows:

*H2: Companies in industries with high product market competition are more likely to obtain B Corporation certification and have better social and environmental performance than those in industries with less product market competition.*

#### *Gender Socialization, Ethics of Care, and Social Identity Theories and B Corporation*

Gender socialization theory suggests that men and women have tendencies to view morality in different terms (Mason and Mudrack, 1996), and the ethics of care suggests that the discrepancy in being oriented towards care-based or justice-based ethical approaches may be based on gender differences (Gilligan, 1982). The ethics of care recognizes that human beings are dependent at least early years and that there are critical moral aspects in developing the relations of caring that allow human beings to live and progress. More clearly, the ethics of care indicates that the moral salience of women is to attend and meet the needs of others (Held, 2006). Spence

(2016) emphasizes the relationship between feminist ethics and entrepreneurship with social goals. She highlights the work by Held (2006) and Gilligan (1982) who indicate that female tends to emphasize interpersonal relationships and care as a center of moral action toward the society. Overall, theories predict that female owned businesses have better CSR performance.

Empirical studies also show a positive association between female business owners and firms' CSR performance (Soares *et al.*, 2011; Larrieta-Rubín de Celis *et al.*, 2015; Brush, 1992; Marquis and Lee, 2013). Based on prior studies and grounded in gender socialization theory and ethics of care, our hypothesis H3a predicts that female owned firms are more likely to obtain B Corp certification and have better social and environmental performance.

We draw on Rawls' theory of justice (Rawls, 1971) and social identity theory (Tajfel, 1982; Tajfel and Turner, 1986) to establish the relationship between ethnic minority and CSR. Theory of justice (Rawls, 1971) states that social justice is about fairness by giving individuals capability and equality of opportunity. Ethnic minorities tend to face challenges in obtaining social justice, especially in the forms of fairness and equal opportunity. In light of their challenges to obtain social justice, social identity theory (Tajfel, 1982; Tajfel and Turner, 1986) suggests that ethnic minorities tend to focus on improving social justice in the society. They also tend to engage in continuous dialogs with the community to uphold fairness and equal treatments for everyone as a manifestation of their social identity. In sum, theories suggest that ethnic minority owned firms are more likely to have better social performance.

In support of the predictions by theories, empirical studies in general suggest a positive impact of ethnic minority business owners on corporate social performance (Gomolka, 1978; Harjoto *et al.*, 2015; Wang and Coffey, 1992; 1998). Accordingly, we expect the likelihood of

obtaining B Corporation certification and corporate social performance (H3b) to be better for minority-owned firms.

Our hypotheses are stated as follows:

*H3a: Female owned companies are more likely to obtain B Corporation certification and have better social and environmental performance than those owned by males.*

*H3b: Minority owned companies are more likely to obtain B Corporation certification and have better social and environmental performance than nonminority owned companies.*

### **Data and Sample Selections**

We utilize two sets of data for our study. For our first dataset, we focused on the companies receiving B Corporation certification between 2007 and 2014. We manually collected company names and states in which their headquarters are located from the B Lab website (<https://www.bcorporation.net/community/find-a-b-corp>). The initial sample consists of 1,295 firms with 806 firms in the United States. We merged this data with the state-level data on unemployment rate, political votes, level of education, wage rate, and religiosity collected from various U.S. government websites, the Association of Religion data archives (ARDA), and Gallup Analytics. We used this dataset to test our first hypothesis (H1). The final sample from our first dataset consists of 743 U.S. firms across 40 states and Washington D.C. We find that most of B Corporations are located in the states of California, New York, and Pennsylvania. Table 1 presents the detailed geographic distribution of B Corporations certified between 2007 and 2014. B Lab requires companies to apply to become a Benefit Corporation in states recognizing such a legal entity within two years it becomes a B Corporation. Table 1 also lists the year since which a state began to recognize Benefit Corporations as a legal form of business.

[Insert Table 1 about here]

We obtained our second dataset from B Lab by submitting a research proposal to the request for proposal (RFP #2) from the Case i3 and GIIRS Research Project (<https://sites.duke.edu/casei3/for-researchers-2/case-i3-b-lab-and-giirs-research-project/>). B Lab conducts an impact assessment survey in which businesses can voluntarily assess their environmental, social, and governance (ESG) scores via this website: <http://bimpactassessment.net/>. We utilize the *overall impact scoring* and the *company key worksheets* provided by the B Lab. The assessment has four broad categories: corporate governance (CGOV), employees (EMP), community (COM), and environment (ENV). In order to qualify for a B Corporation certification, a firm must score a minimum of 80 out of 200. There were 2,979 firms (871 of them are certified B Corporation) voluntarily participating who answered some questions in the B Lab impact assessment survey between 2011 and 2013 and all firm identifying variables (e.g., name, addresses, etc.) were kept anonymous.<sup>7</sup> These firms include certified B Corporations, firms in the process of obtaining certification and other firms.

For testing H2, H3a, and H3b, we obtained the following data from this dataset: company scores in each of the four categories (CGOV, EMP, COM, ENV), SIC codes, owner characteristics (i.e., gender and ethnicity), and firm data (i.e., region, ownership status, and revenue). For each company, we standardized each score into a 100-point scale and summed the four assessment scores to obtain the ESG score. We merged this dataset with the industry-based measure of product market competition (the Hirschman-Herfindahl index), constructed using 4-digit SIC codes. After deleting observations with missing ESG scores, net revenues, owner characteristics, and SIC codes, our final sample from the second dataset consists of 902 firms (1,082 firm-year

observations), including 575 firms (674 firms-year observations) successfully becoming B Corporations during 2007-2013.

## Research Design

Using the first dataset, we examine the impact of geographic locality on the speed and the number of firms obtaining B Corporation certification in each state (H1). Our first dependent variable measures the speed of adopting B Corporation certification by taking the number of days between the day a firm became a B Corporation and December 31, 2014 (*ADOPT*). A low number indicates that a company did not join the B Corporation movement until recently. We take the natural log of *ADOPT* to reduce the skewness of distribution ( $LN(ADOPT)$ ).

Our second and third dependent variables are the number of firms obtaining B Corporation certification in each state in each year (*COUNT*) and the cumulative number of all firms that have obtained B Corporation certification in each state up to the current year (*STATECOUNT*). *COUNT* measures the adoption rate for each state in a particular year, whereas *STATECOUNT* represents the cumulative adoption rate of B Corporation for each state up to the current year. Again, we take the natural log of these variables to reduce the skewness ( $LN(COUNT)$  and  $LN(STATECOUNT)$ ).

Our independent variables are state-level characteristics, including the unemployment rate (*UNEMP*), political leaning (*DEM*), percentage of population with bachelor degree or higher (*EDUC*), hourly wage (*WAGE*), and religiosity (*RELIGION*). Because B Lab requires B Corporations to pursue state incorporation as Benefit Corporations where possible, we also include *BENCORP*, an indicator variable equals one if a state recognizes a Benefit Corporation as a legal entity of a firm.<sup>8</sup>

The empirical models to test our first hypothesis (H1) are as follows:

$$DEP\ VAR = \alpha_0 + \alpha_1 UNEMP + \alpha_2 DEM + \alpha_3 EDUC + \alpha_4 WAGE + \alpha_5 RELIGION + \alpha_6 BENCORP$$

$$+ \varepsilon_1 , \tag{1}$$

where *DEP VAR* represents dependent variables, including *LN(ADOPT)*, *LN(COUNT)*, and *LN(STATECOUNT)*. Appendix A provides a list of variable definitions.

We test our second and third hypotheses (H2 and H3) using our second dataset. We examine the impact of product market competition and business owner characteristics on CSR performance. We measure firms' CSR performance using six different measures at the firm level. The first measure is an indicator variable taking on the value of one if a firm obtained B Corporation certification, or zero otherwise (*BCORP*). The next measures are four component scores, including corporate governance score (*CGOV*), employee-related social responsibility score (*EMP*), community-related CSR score (*COM*), and environmental-related CSR score (*ENV*). The last measure is the overall ESG score (*ESG*), calculated as the sum of the four component scores.

Using all companies in the Compustat database, we constructed the Hirshman-Herfindahl index.<sup>9</sup> Our measure of product market competition, HHI, is defined as one minus the Hirshman-Herfindahl index. A high (low) HHI represents a more (less) competitive product market. Our measures of business owner characteristics are gender (*FEMALE*) and race (*MINORITY*). As mentioned earlier, most of the existing B Corporations are privately held businesses partly because public companies have more restrictions (e.g., reporting requirements and duties to institutional shareholders) in becoming B Corporations. We control for private ownership (*PRIVATE*) in the models. Similar to Chen and Kelly (2015), we control for revenue as a measure of firm size (*REV*).

The empirical models to test our second and third hypotheses (H2, H3a, and H3b) are stated as follows:

$$Prob(BCORP) = \beta_0 + \beta_1 HHI + \beta_2 FEMALE + \beta_3 MINORITY + \beta_4 PRIVATE + \beta_5 REV + \varepsilon_2 , \tag{2}$$



$$DEP\ VAR = \gamma_0 + \gamma_1 HHI + \gamma_2 FEMALE + \gamma_3 MINORITY + \gamma_4 PRIVATE + \gamma_5 REV + \varepsilon_3, \quad (3)$$

where *DEP VAR* represents CSR performances measures, including *CGOV*, *EMP*, *COM*, *ENV*, and *ESG*. We estimate equations (1) and (3) using the ordinary least square (OLS) regression and we estimate equation (2) using the probit regression.

[Insert Table 2 about here]

## Sample Statistics and Regression Results

### *Descriptive Statistics of the First Dataset*

Table 2 presents the descriptive statistics for our first sample. Panel A of Table 2 shows that, on average, sample firms have adopted B Corporation certification (*ADOPT*) for approximately 1,000 days (or 2.7 years) with a median of 821 days (or 2.5 years) prior to December 31, 2014, indicating that the decision to obtain B Corporation certification is a recent phenomenon.

Unlike the variable *ADOPT* that is measured at the firm level (N=743 firms), *COUNT* is measured at a state-year level (N=159) and *STATECOUNT* is measured at a cumulative state-year level (N= 216). We use the natural logarithm of *COUNT* and *STATECOUNT* in the multivariable regressions, and therefore, observations with *COUNT* and *STATECOUNT* equal to zero are excluded from the analysis. On average, four firms obtained B Corporation certification (median = 2) in each state per year (*COUNT*).

Panel B of Table 2 presents the correlations matrix of the dependent and independent variables in our first sample. The negative correlation between the speed of adoption ( $LN(ADOPT)$ ) and the number of certifications obtained in each state in each year ( $LN(COUNT)$ ) show that firms obtained their B Corporation certification in the early years (i.e., early adopters)

are in the states with a lower number of adopters. In addition, early adopters tend to operate in the states with a lower percentage of population with bachelor degrees or higher ( $\rho = -0.237$ ), a lower wage rate ( $\rho = -0.296$ ), and a greater percentage of religious population ( $\rho = 0.122$ ).

We find that the number of firms obtaining B Corporation certification in each state in each year (*COUNT*) and the cumulative number of firms obtaining B Corporation certification in each state (*STATECOUNT*) are positively correlated with unemployment rate, Democratic political leaning, wage rate, and if a state recognizes a Benefit Corporation as a legal entity, but negatively correlated with the level of religiosity. Our results indicate that there are significant correlations between state-level characteristics and the speed (*ADOPT*) and frequency (*COUNT* and *STATECOUNT*) of obtaining B Corporation certification. The preliminary evidence from the univariate analysis supports our first hypothesis (H1).

[Insert Table 3 about here]

### *Regression Results of the First Dataset*

Table 3 presents the multivariate regression results for model (1) using the first dataset. Since our dependent variable is in the natural logarithmic format, the slope of the coefficients can be interpreted as percentage changes. As seen in the first column of Table 3, firms in the states with a political leaning toward the Democratic party (*DEM*) tend to join the B Corporation movement sooner ( $LN(ADOPT)$ ) than those in the states with a political leaning toward other political parties. Firms in the states with a lower hourly wage rate tend to adopt the B Corporation certification sooner. Specifically, a dollar increase in the hourly wage delays the adoption of B Corporation certification by approximately 10%. We find that firms in states having a greater

percentage of population with religious affiliations (*RELIGION*) tend to join the B Corporation movement sooner than those having a lower percentage of population with religious affiliations. One percent increase in the population that attend religious activities shortens the adoption speed of B Corporation by 1.42%.

The second column of Table 3 shows that states with a higher unemployment rate have more firms becoming B Corporations per year. A percent increase in the unemployment rate increases the number of firms becoming B Corporations by 18.38%. In addition, Democratic-leaning states have more firms obtaining B Corporation certification per year by over 50% than non-Democratic leaning states. Consistent with our prediction, on average, the states recognizing the legal status of Benefit Corporations have more firms obtaining B Corporation certification in each year.

The third column of Table 3 shows that, in addition to the unemployment rate and Democratic leaning, education level, wage rate, religiosity, and the states that recognize the legal status of Benefit Corporations are positively associated with the cumulative count of certified B Corporations. Overall, results support our first hypothesis (H1).

[Insert Table 4 about here]

#### *Descriptive Statistics of the Second Dataset*

Table 4 presents the descriptive statistics for our second sample. The average corporate governance (*CGOV*) and employee-related (*EMP*) CSR scores are approximately 29 and 23, with

median values of 30 and 24, respectively. Our sample firms, on average, received significantly higher CSR scores in community-related (*COM*) and environment-related (*ENV*) categories than in *CGOV* and *EMP* categories. The average ESG score is 81 with a median slightly below 80.

Panel B of Table 4 presents the correlations matrix of the variables in our second sample. We find that the likelihood of firms pursuing B Corporation certification (*BCORP*) is positively correlated with product market competition (*HHI*). Results show that firms in more competitive product markets tend to have higher CSR performance across various CSR components (*CGOV*, *COM*, *ENV*, and *ESG*). In general, the correlation coefficients support our second hypothesis (H2).

We also find that the existence of female and ethnic minority owners increases the likelihood of firms to obtain B Corporation certification. Firms with female business owners (*FEMALE*) are associated with higher scores in corporate governance (*CGOV*), community (*COM*), and overall ESG, but are associated with lower score in employee relations (*EMP*). Ethnic minority owned establishments (*MINORITY*) are positively correlated with community (*COM*) and overall ESG scores while privately owned firms are positively correlated with environment (*ENV*) and ESG scores. Overall, we find supporting evidence for our third hypotheses (H3a and H3b).

[Insert Table 5 about here]

#### *Regression Results of the Second Dataset*

Table 5 presents the multivariate regression results for models (2) and (3) using the second dataset. As seen in Table 5, *HHI* is positively associated with  $\text{Prob}(BCORP)$  and all CSR performance measures, suggesting that firms facing more product market competition are more

likely to become certified B Corporations and act socially responsibly. Overall, we find empirical evidence to support our second hypothesis (H2).

We find firms with female business owners are positively associated with the probability of obtaining B Corporation certification and the performance in corporate governance (*CGOV*), community (*COM*), and overall ESG. This finding supports H3a and is consistent with existing studies indicating that women tend to emphasize the ethics of care as a center of moral action (Held, 2006; Spence, 2016). We also find that firms with minority owners tend to obtain B Corporation certification and have higher scores in the community related CSR, providing support for H3b. In addition, our results show that privately owned firms tend to have lower environment scores and firms with higher revenues are more likely to adopt the B Corporation and have higher employee and community related CSR. The former finding may be due to the heightened concern for environmental responsibility that large corporations are facing. The latter finding indicates that firms with more resources (revenues) tend to be able to take better care of their employees and communities.

### *Robustness Tests*

Table 1 shows that 28 out of 41 states in our sample recognize the legal status of Benefit Corporations (BC states), while the rest of them do not (non-BC states). To rule out the possibility that the influence of the state-level characteristics on firms' decision to become a B Corporation differs between BC states and non-BC state, we conduct robustness checks by first, splitting our sample into two subsamples: firms located in BC states and firms located in non-BC states, and second, re-estimating model (1) in each subsample. We find that political leaning is positively associated with the speed and the number of firms joining the B Corporation movement in both

subsamples. We also find that states with a lower wage rate and a greater population with religious affiliations tend to be adopt B Corporation certification earlier in both subsamples. In addition, states with a higher unemployment rate have more firms becoming B Corporations per year and over the years. Overall, untabulated results are consistent with those in Table 3 from the main analysis, suggesting that our results are not driven by firms located in BC states.

## **Discussion**

Given that our sample obtained from B lab consists of SMEs with an average annual revenue of \$13.5 million, our findings provide implications on the factors that lead small businesses to pursue third-party certification for being socially and environmentally responsible enterprises. We draw our hypothesis from institutional isomorphism and propose that local community will put coercive and normative pressures on firms, motivating them to become B Corporations and act responsibly. We also conjecture that competition in product markets will trigger mimetic isomorphism and competitive isomorphism, pushing firms to adopt business models they perceive to be successful, such as B Corporations, to gain legitimacy and competitive advantages. Drawing from gender socialization theory, the ethics of care, and social identity theory, we hypothesize that female owned and minority owned firms are more likely to obtain B Corporation certification and have better ESG performance.

DiMaggio and Powell (1983) identify three mechanisms of institutional isomorphic changes: coercive, mimetic, and normative. Our study contributes to the research in institutional isomorphism by examining the influence of each mechanism on firms' decision in obtaining B Corporation certification. We find that each mechanism of institutional isomorphism has different impacts on SMEs' decision of pursuing B Corporation certification. For example, as seen in Table

3, political leaning (*DEM*) affects both the speed and the (annual and cumulative) number of firms becoming B Corporations whereas the level of education (*EDUC*) is only significantly associated with the cumulative number of firms becoming B Corporations. The finding suggests that coercive isomorphism stemming from political influence has a stronger impact on firms' decision to become B Corporations than normative isomorphism stemming from education.

Our results also suggest that mimetic isomorphism and competitive isomorphism represented by product market competition are significantly associated with the likelihood of a firm to become a B Corporation. We find that firms in a more competitive product market are more likely to respond to competition by obtaining B Corporation certification and having better CSR performance than those in a less competitive market. The fact that SMEs in highly competitive environment are willing to allocate resources to become B Corporations suggests that such an action is strategic and has its merits (e.g., the assessment process yielded innovations and improvement; membership in B Corporation community provides support and business connections). Some scholars take a strategic view of CSR (Porter and Kramer, 2002; 2006). That is, companies take CSR initiatives to benefit society and themselves by strengthening the competitive context in which they operate. Our results are consistent with this view.

Consistent with the prediction by gender socialization theory and the ethics of care, we find that firms owned by women are more likely to adopt the B Corporation and have better CSR performance. As shown in Table 5, female owned firms have higher scores in corporate governance (*CGOV*) and community (*COM*) as well as overall ESG performance than their counterparts. Prior research has noted the gender effect on corporate governance (Abbott *et al.*, 2012; Adams and Ferreira, 2009; Srinidhi *et al.*, 2011). For example, female directors are associated with better earnings quality (Srinidhi *et al.*, 2011), lower likelihood of financial

restatement (Abbott *et al.*, 2012), and more effort to monitoring (Adams and Ferreira, 2009). Our evidence of the positive association between female owners and corporate governance performance supports this notion.

Although we find that enterprises with ethnic minority business owner are also more likely to obtain B Corporation certification, we did not find a strong association between minority owned businesses and ESG performance. Result in Table 5 indicates that minority owned firms only score higher than other firms in community-related CSR. As social identity theory (Tajfel, 1982; Tajfel and Turner, 1986) suggests, ethnic minorities often face challenges in obtaining social justice, and therefore, tend to engage in continuous dialogs with the community to uphold and promote fairness and inclusion. Given the context of our study, it is not surprising that minority owned firms are associated with community-related CSR rather than other aspects of CSR. However, it is also worth noting that only 1.3% of our sample firms are owned by ethnic minority. If our finding between minority and CSR is simply an issue of statistical power, such research may have to be revisited if or when a larger sample of firms with ethnic minority owners becomes available.

### **Conclusions, Limitations, and Future Research**

Our study contributes to the existing literature by connecting research in purpose-driven, small business enterprises with CSR literature. We find that the determinants of firms to become B Corporations and the determinants of firms to engage in CSR activities are similar. We find that geographic locality, product market competition, and owners' demographic characteristics affect firms' decision in becoming B Corporations. We also extend the literature on B Corporations by applying organizational isomorphism, gender socialization theory, the ethics of care, and social



identity theory to explain why firms obtain B Corporation certification and achieve higher ESG performance. Our study is subject to limitations which provide opportunities for future research. Specifically, our analyses are limited because B Lab sanitized (removed) the firm identifiers, making merging data from other sources difficult, if not impossible. Future studies could examine the narratives from business owners who decided to join and those who decided not to join the B Corporation movement to find out their stories, reasons, and considerations of obtaining B Corporation certification.

## Notes

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<sup>1</sup> The average annual revenue for small enterprises in the U.S. Small Business Administration (SBA) list across all sectors is \$18 million ([https://www.sba.gov/sites/default/files/files/Size\\_Standards\\_Table.xlsx](https://www.sba.gov/sites/default/files/files/Size_Standards_Table.xlsx)).

<sup>2</sup> "When it comes to CSR, size matters," Forbes, August 14, 2013

(<https://www.forbes.com/sites/insead/2013/08/14/when-it-comes-to-csr-size-matters/#2a5258b652a2>).

<sup>3</sup> A Benefit Corporation (BC) represents a legal statute of an enterprise granted by some states in the U.S. at which the BC is a C corporation that is legally obligated to provide public benefit in addition to profit. A B Corporation is a certification that is granted by a third party (B Lab) to enterprises that apply for the certification and meet the standards established by B Lab.

<sup>4</sup> Similarly, Hiller (2013) uses the framework to evaluate whether adopting the Benefit Corporation form qualifies to be a CSR action.

<sup>5</sup> DiGiuli and Jostovsky (2014) provide a contrasting comparison between Starbucks with a headquarter in Seattle Washington (a Democratic political leaning state) and Wendy's with a headquarter in Dublin Ohio (a Republican political leaning).

<sup>6</sup> B Corporation certification also provides a layer of legal protection from shareholder supremacy (i.e., potential lawsuits for neglecting firms' fiduciary duty to maximize shareholder wealth).

<sup>7</sup> We cannot merge the first dataset with the second dataset because the B Lab data from the Case i3 and GIIRS Research Project do not include any B Corp firm identity information (i.e., firms' name, address, etc.).

<sup>8</sup> A company needs to apply to become a Benefit Corporation in states recognizing such a legal entity within two years after it becomes a B Corporation.

<sup>9</sup> The Hirshman-Herfindahl index is a measure of market concentration, computed as the sum of the squared market share of all firms in an industry. Market share is calculated using the annual percentage of net revenue of each firm relative to all firms in the same 4-digit SIC code.

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## Appendix A

### Variable Definitions

Variables	Descriptions
ADOPT	Number of days since the firm obtained the B Corp certification until December 31, 2014 (source: B Corp website at <a href="https://www.bcorporation.net/community/find-a-b-corp">https://www.bcorporation.net/community/find-a-b-corp</a> )
COUNT	Number of firms in each states in each year that obtained the B Corp certification
STATECOUNT	Cumulative number of firms that have obtained B Corp certification in each state up to the current year
UNEMP	State-level unemployment rate (source: BLS)
DEM	An indicator variable equals to one if a state has political leaning toward the Democratic Party (source: Gallup and Brookings Institute)
EDUC	State-level percentage of population with bachelor degree or higher (source: US Department of Education)
WAGE	State-level hourly wage rate (source: BLS)
RELIGION	State-level percentage of population that attended religious activities (source: ARDA and Gallup)
BENCORP	An indicator variable equals one if a state recognizes a Benefit Corporation as a legal entity of a firm (source: <a href="http://benefitcorp.net/policymakers/state-by-state-status">http://benefitcorp.net/policymakers/state-by-state-status</a> )
BCORP	An indicator variable equals to one if a firm obtained the B Corp certification (source: B Lab data)
CGOV	Corporate governance scores (source: B Lab data)
EMP	Employee relation scores (source: B Lab data)
COM	Community engagement scores (source: B Lab data)
ENV	Environmental performance scores (source: B Lab data)
ESG	Total ESG scores from the sum of CGOV, EMP, COM, and ENV variables (source: B Lab data)
HHI	Level of market competition, defined as $1 - \text{the Hirschman-Herfindahl Index}$ . The Hirschman-Herfindahl index is computed as the sum of the squared market share of all firms in the same industry. (source: Compustat)
FEMALE	An indicator variable equals one if the business owner is a female (source: B Lab data)
MINORITY	An indicator variable equals one if the business owner is a minority (source: B Lab data)
PRIVATE	An indicator variable equals one if the firm is privately owned (source: B Lab data)
REV	Natural log of annual net sales (\$) (source: B Lab data)

**Table 1****Distribution of Firms Obtaining B Corp Certification across States**

No	State	Recognizes Benefit	Year of Obtaining B Corp Certification								Total	
		Corporation Since	2007	2008	2009	2010	2011	2012	2013	2014		
1	AK	2013	0	0	0	0	0	0	0	0	1	1
2	AZ	2013	0	0	2	2	1	1	0	4	10	10
3	CA	2011	16	12	11	24	20	44	47	45	219	219
4	CO	2013	1	1	0	3	9	7	11	17	49	49
5	CT	2014	0	0	0	0	0	0	1	3	4	4
6	DC	2013	1	2	0	0	2	4	3	6	18	18
7	DE	2013	0	0	0	0	0	0	1	1	2	2
8	FL	2014	0	0	0	0	0	5	2	1	8	8
9	GA	-	0	1	2	0	0	2	1	0	6	6
10	HI	2011	1	0	0	0	1	2	2	0	6	6
11	IA	-	0	0	0	0	1	0	1	0	2	2
12	ID	2015	1	0	0	0	0	4	0	0	5	5
13	IL	2012	0	0	1	2	3	6	3	3	18	18
14	KS	-	0	0	0	1	0	0	1	1	3	3
15	LA	2012	0	0	0	1	0	0	0	0	1	1
16	MA	2012	0	2	1	3	4	4	7	10	31	31
17	MD	2010	0	0	0	3	3	2	2	1	11	11
18	ME	-	0	0	1	0	0	0	1	0	2	2
19	MI	-	0	0	0	2	0	2	2	2	8	8
20	MN	2014	0	0	1	0	3	0	0	1	5	5
21	MO	-	0	0	0	0	0	1	1	0	2	2
22	MT	2015	0	0	0	0	2	0	1	1	4	4
23	NC	-	1	2	4	4	7	2	5	3	28	28
24	NE	2014	0	0	0	0	0	0	0	1	1	1
25	NH	2014	0	0	0	0	2	0	1	1	4	4
26	NJ	2011	0	0	0	2	0	0	0	3	5	5
27	NM	-	0	1	0	0	1	0	2	0	4	4
28	NV	2013	0	0	0	0	0	1	0	0	1	1
29	NY	2011	5	5	2	6	9	15	24	21	87	87
30	OH	-	0	0	0	1	1	1	3	2	8	8
31	OR	2013	0	4	3	9	1	3	12	12	44	44
32	PA	2012	11	1	6	5	3	8	10	10	54	54
33	RI	2013	0	0	0	0	0	0	0	1	1	1
34	TN	2015	0	0	1	1	0	0	2	0	4	4
35	TX	-	0	0	1	1	4	2	3	6	17	17
36	UT	2014	0	0	0	0	0	0	1	0	1	1
37	VA	2011	2	0	0	0	3	4	4	4	17	17
38	VT	2010	2	0	0	1	1	5	5	8	22	22
39	WA	-	2	0	0	5	2	5	4	8	26	26
40	WI	-	0	0	0	0	0	1	2	0	3	3
41	WY	-	0	0	0	0	0	0	0	1	1	1
Total	Total	28	43	31	36	76	83	131	165	178	743	743



**Table 2. Sample Statistics for the First Dataset (Hand-Collected B Corp Data)**

**Panel A. Descriptive Statistics**

Dependent Variables						
Variables	Obs	Mean	Std. Dev.	Min	Median	Max
ADOPT	743	999.285	737.410	30	821	2801
COUNT	159	4.092	1.124	1	2	47
STATECOUNT	216	11.588	27.978	1	4	219
Independent Variables						
Variables	Obs	Mean	Std. Dev.	Min	Median	Max
UNEMP	159	4.833	1.328	1.634	4.744	8.774
DEM	159	0.660	0.475	0	1	1
EDUC	159	30.552	5.671	21.4	29.9	49.7
WAGE	159	17.114	2.842	13.45	16.67	30.62
RELIGION	159	46.298	8.999	25.456	47.727	80.447
BENCORP	159	0.604	0.491	0	1	1

**Panel B. Correlation Coefficients**

No	Variables	1	2	3	4	5	6	7	8
1	LN(ADOPT)	1							
2	LN(COUNT)	-0.2472*	1						
3	LN(STATECOUNT)	-0.2196*	0.8790*	1					
4	UNEMP	-0.0602	0.4354*	0.4023*	1				
5	DEM	-0.034	0.4437*	0.4391*	0.1241*	1			
6	EDUC	-0.2370*	0.0613	0.0639	-0.0237	0.3954*	1		
7	WAGE	-0.2963*	0.2379*	0.2372*	0.2345*	0.4121*	0.8103*	1	
8	RELIGION	0.1215*	-0.1021*	-0.1024*	-0.0877*	-0.1032*	-0.0463	0.1226*	1
9	BENCORP	-0.0112	0.4785*	0.5459*	0.0731	0.5665*	0.4160*	0.3268*	-0.0595

\* represents statistical significance at the 5% level

**Table 3**  
**Multivariate Regressions Based on the First Dataset**

	LN(ADOPT)	LN(COUNT)	LN(STATECOUNT)
UNEMP	-0.0014 (0.13)	0.1838 (3.67)***	0.1406 (4.28)***
DEM	0.1676 (2.37)**	0.5001 (2.57)**	0.2336 (1.97)**
EDUC	0.0049 (0.52)	-0.0374 (1.14)	0.0267 (2.13)**
WAGE	-0.0970 (5.52)***	0.0212 (0.40)	0.0384 (0.93)
RELIGION	0.0142 (4.97)***	0.0109 (1.20)	0.0050 (1.78)*
BENCORP	0.0848 (1.29)	1.0723 (4.73)***	0.8560 (5.92)***
Intercept	7.7579 (29.86)***	-1.1341 (1.60)	0.4929 (1.16)
Observations	743	159	216
R-squared	0.1303	0.1799	0.8699

\*\*\*, \*\*, and \* represent statistical significance at the 1%, 5%, and 10% level respectively. Year fixed effects are included but not reported.

**Table 4 Sample Statistics for the Second Dataset (B Lab Data)**

**Panel A. Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Median	Max
CGOV	674	42.794	15.693	2.616	43.750	100.000
EMP	674	39.135	17.695	0.000	39.966	100.000
COM	674	28.118	14.445	1.010	25.641	100.000
ENV	674	78.402	13.179	0.294	79.607	100.000
ESG	674	188.449	34.989	100.770	185.160	312.500
HHI	674	0.911	0.086	0.720	0.953	0.994
FEMALE	674	0.073	0.260	0.000	0.000	1.000
MINORITY	674	0.013	0.115	0.000	0.000	1.000
PRIVATE	674	0.614	0.487	0.000	1.000	1.000
REV	674	13.407	4.388	0.000	14.220	23.400

**Panel B. Correlation Coefficients**

Variables	BCORP	CGOV	EMP	COM	ENV	ESG	HHI	FEM	MINOR	PRIVATE
BCORP	1									
CGOV	-0.0663	1								
EMP	-0.006	0.2666*	1							
COM	0.0697	0.2034*	-0.2185*	1						
ENV	0.0204	0.0084	0.019	0.2515*	1					
ESG	0.0089	0.7192*	0.1197*	0.5726*	0.2814*	1				
HHI	0.0491*	0.1085*	0.0367	0.1490*	0.2981*	0.2682*	1			
FEMALE	0.0417*	0.1526*	-0.1011*	0.1534*	-0.0218	0.2524*	0.0201	1		
MINORITY	0.0486*	0.0414	-0.037	0.1029*	0.0217	0.1294*	0.0452	0.1806*	1	
PRIVATE	0.0964*	0.042	0.0041	0.0112	0.0628*	0.0793*	0.0614	0.0456	-0.0601	1
REV	0.0800*	-0.0252	0.3085*	-0.2113*	-0.1296*	-0.2102*	-0.1696*	-0.0473	-0.0379	-0.0537

\* represents statistical significance at the 5% level

**Table 5**  
**Multivariate Regressions Based on the Second Dataset**

	Prob(BCORP)	CGOV	EMP	COM	ENV	ESG
HHI	0.232 (1.83)*	12.537 (2.84)***	14.592 (3.20)***	15.223 (2.35)**	48.460 (7.67)***	22.821 (4.65)***
FEMALE	0.166 (5.71)***	5.684 (3.71)***	1.111 (0.77)	4.748 (2.41)**	0.675 (0.31)	6.153 (4.18)***
MINORITY	0.181 (2.73)***	1.419 (0.58)	2.142 (0.53)	6.549 (1.69)*	5.512 (1.39)	5.415 (1.31)
PRIVATE	0.032 (1.44)	0.933 (1.00)	1.287 (1.48)	0.613 (0.50)	-1.893 (1.68)*	1.500 (1.43)
REV	0.004 (1.70)*	-0.049 (0.45)	0.511 (4.46)***	0.560 (3.77)***	-0.187 (1.40)	-0.053 (0.41)
Intercept	-3.035 (15.59)***	21.387 (3.69)***	6.095 (1.29)	23.667 (2.91)***	40.664 (5.68)***	27.466 (4.21)***
Observations	1082	674	674	674	674	674
Number of Firms	902	575	575	575	575	575
R-squared	0.223	0.066	0.072	0.059	0.115	0.081

\*\*\*, \*\*, and \* represent statistical significance at the 1%, 5%, and 10% level, respectively. Standard errors are clustered by firm and year fixed effects are included but not reported.